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**COMMODITY CREDIT CORPORATION SELLS
SUGAR AT \$36 MILLION LOSS**

ORIGINAL

HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
NINETY-NINTH CONGRESS
SECOND SESSION

APRIL 30, 1986

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COMMODITY CREDIT CORPORATION SELLS SUGAR AT \$36 MILLION LOSS

WEDNESDAY, APRIL 30, 1986

HOUSE OF REPRESENTATIVES,
GOVERNMENT INFORMATION, JUSTICE,
AND AGRICULTURE SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 2247, Rayburn House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Glenn English, Edolphus Towns, Jim Lightfoot, and Joseph J. DioGuardi.

Also present: William T. Cherry, professional staff member; Euphon L. Metzger, clerk; and John J. Parisi, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF CHAIRMAN ENGLISH

Mr. ENGLISH. The hearing will come to order.

Last fall, Florida sugar processors forfeited loans on about 290,000 tons of raw cane sugar because of falling market prices. That raw sugar, which had been the collateral for those loans, became the property of the Commodity Credit Corporation.

In December, CCC sold about 122,000 tons of sugar to be processed into ethanol. The remaining 168,000 tons is still in the CCC inventory, stored in a warehouse owned by the processor with CCC paying the storage costs.

The cost to CCC of the sugar it sold was in excess of \$43 million. It derived more than \$7 million from the sale and suffered a loss of about \$36 million. This loss is charged to the cost of farm programs and it is borne by the taxpayers.

Statutes governing the management of commodities owned by the CCC provided several options. They can be stored and sold when prices rise above the price support levels. They can be exported, donated, and bartered for strategic materials, or sold for other than primary uses. The basic principles which govern the various uses are that CCC must use the normal channels of trade whenever possible and that it must not damage the price support programs that it operates.

CCC almost always owns an inventory of many commodities that it has received because of forfeitures. Sugar has not often been included in the inventory, but there was one prior instance when a large quantity was obtained. The sugar was held in storage for

higher prices and was ultimately sold for a net profit above costs, transportation, and storage of almost \$67 million.

This hearing was scheduled to learn from the President of the CCC why he selected the option of selling the Florida sugar in December for other than primary use. We want to know why he decided to waste \$36 million of the taxpayers' funds. We want to know whether or not this policy which he has applied will apply to other commodities in the CCC inventory. We want to know if he plans another fire sale to dispose of the other 168,000 tons of sugar owned in Florida. And I am certainly looking forward to answers to these and other questions.

Mr. Lightfoot.

Mr. LIGHTFOOT. Thank you, Mr. Chairman. And thanks to the witnesses who are with us today.

There are, indeed, some questions surrounding the sale of surplus Commodity Credit Corporation sugar that need to be answered. I do understand Mr. Amstutz' statement in regard to his wanting to get rid of the surplus, nonstorable sugar in the most expedient way under the market conditions that existed last November. However, I am more concerned about the long-term implications that this could have for the domestic ethanol market for corn. We have tremendous surpluses of corn. We in the Midwest are desperately searching for new domestic markets all the time. We seem to have found one in the ethanol industry; yet, this sale of Commodity Credit sugar for ethanol production at a significant loss, at least on the surface, would appear to pose a threat to all the work that we have done to foster the domestic corn-consuming ethanol industry.

I recognize the need to expand the domestic market for sugar as well, but there appears to be a conflict in our policy for getting rid of Government surpluses of these two commodities.

I look forward to the testimony this morning. And we thank you, Mr. Chairman.

Mr. ENGLISH. Thank you very much, Mr. Lightfoot.

Our witness today is the Honorable Daniel G. Amstutz, who is the Under Secretary of Agriculture for International Affairs and Commodity Programs, and who is also the ex officio President of the Commodity Credit Corporation.

Mr. Amstutz, we want to welcome you here today and we are looking forward to your testimony. Without objection, if you would care to summarize that testimony, your complete written testimony will be made a part of the record.

STATEMENT OF DANIEL G. AMSTUTZ, UNDER SECRETARY OF AGRICULTURE FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, AND EX OFFICIO PRESIDENT, COMMODITY CREDIT CORPORATION

Mr. AMSTUTZ. Thank you, Mr. Chairman. It is a privilege to appear before you and your subcommittee today.

If you have no objection, Mr. Chairman, my statement is really not very long, and since it gets to the heart of the matter of this hearing I would like to present it orally here.

Mr. ENGLISH. We would be delighted, Mr. Amstutz, whichever you feel most comfortable with.

Mr. AMSTUTZ. Mr. Chairman, I appreciate the opportunity to provide you with information about the sale by CCC of nearly 122,000 short tons of raw cane sugar for restricted use, specifically for the manufacture of ethanol for fuel or other industrial uses. I will confine my prepared remarks to a brief assessment of the sale of the sugar and to our assessment of the conditions that existed last November when we decided to offer the sugar for sale for use specifically restricted to the manufacture of ethanol.

On December 3, 1985, CCC issued an announcement of contractual terms and conditions and an invitation for competitive bids to purchase 121,895 tons of CCC-owned raw sugar stored in millsite warehouses at four raw sugar mills in the Glades area of Florida. Bidders were limited to those regularly engaged in the business of manufacturing ethanol and other contractual conditions were imposed to ensure the manufacture of the identical sugar delivered by CCC into ethanol.

By the closing time for submission of bids on December 19, 1985, CCC had received offers from three separate manufacturers of ethanol to purchase either the total quantity of sugar offered for sale or a portion of the quantities at the various storage locations. After careful analysis of the bids, CCC decided to accept the offer submitted by Shepherd Oil, Inc., an ethanol manufacturer in Jennings, LA, and notified the firm on December 20 that it was the successful bidder.

On December 23, CCC announced that contracts had been awarded to Shepherd Oil for the entire 121,895 tons of raw sugar offered by CCC for sale. The average bid price per ton of sugar offered by Shepherd Oil to CCC was \$60.75 per ton and the total contract value of the sale was slightly over \$7.4 million. To date, CCC's storing warehousemen have loaded out over 62,000 tons of sugar into the buyer's conveyances and CCC has received payments from Shepherd Oil of about \$3.7 million. Delivery of the sugar and payments to CCC will continue over the next several months.

With that brief assessment of the sale, Mr. Chairman, I would now like to describe the conditions that existed last fall in the domestic and world sugar markets and in the Florida sugar-producing area. On September 12, 1985, the day prior to the announcement by the Secretary of Agriculture of the sugar import quota for the 9-month quota year beginning in January 1986, the closing price for the nearby November 1985 domestic raw sugar futures contract was 20.10 cents per pound. Over the next 2 market days nearby prices dropped to 18.61 cents, and further declined by September 30 to 18.23 cents. As a result, CCC acquired about 300,000 tons of raw sugar on October 1 that was forfeited by five Florida sugar processors in full satisfaction of price support loans which matured on September 30.

On October 14, the Florida Sugar Marketing and Terminal Association formally expressed an urgent need for the relocation of some of the sugar forfeited to CCC so that the Florida sugar processors would have adequate warehouse capacity to store 1985 crop production which would soon begin. That association, Mr. Chair-

man, is an agricultural marketing cooperative comprised of the five processors which forfeited sugar to CCC.

After we received the marketing association's request, the Agricultural Stabilization and Conservation Service sent a representative to Florida to meet with officials of the association and each member processor to discuss the need for relocating sugar, the quantities they desired to relocate, and the logistics and costs of moving the sugar to a Tampa warehouse which the association had made a proposal to lease beginning November 1.

The findings of ASCS are summarized as follows:

First, although the warehouse capacity of the Florida processors had increased considerably over the past few years, it was inadequate to store all CCC-owned stocks along with new crop sugar, both of which might remain in storage for a long period of time because of market conditions.

Second, the storage problem was exacerbated by, first, the possibility of a large crop being further enhanced at that time by unusually warm weather and adequate rainfall; second, by low market prices and the marketing association's inability to sell raw sugar at the price that would net its members as much as the 1985 crop Florida price support loan rate of 17.97 cents per pound; and, finally, by the marketing association's efforts to buy low-cost imported sugar to fill some of its future delivery contracts so that more of the new crop would be maintained in storage to serve as collateral for price support loans.

The marketing association had proposed to lease a warehouse in Tampa beginning November 1 that would store an estimated 150,000 tons of raw sugar. The tentative rental cost would be slightly more than \$1 million per year, and the association would possibly be required to enter into a lease for at least 1½ years.

The marketing association would be willing to serve as CCC's warehouseman for the storage of the sugar in the Tampa warehouse, but the association was not certain at that time as to what it would charge CCC for storing and maintaining the sugar.

Several trucking firms had quoted prices of around \$15 per ton to haul sugar to the Tampa warehouse, which is located approximately 150 miles from the Glades area. At \$15 per ton, the freight costs for CCC to move 150,000 tons to fill the warehouse would be approximately \$2¼ million.

ASCS concluded, Mr. Chairman, that 115,000 to 120,000 tons of CCC-owned raw sugar needed to be relocated to an alternate storage site if the processors were to be assured of having sufficient onsite warehouse space to store their 1985 crop production.

During the same timeframe in which ASCS was assessing the storage situation in the Florida sugar-producing area, the Foreign Agricultural Service was assessing the possibility of having CCC's raw sugar stocks refined into white granulated sugar for possible export to world refined sugar markets. However, low world refined sugar prices and high processing and transportation charges for refining the raw sugar made this disposition possibility unattractive. If the raw sugar had been refined for export, CCC would have netted only about one-half cent per pound at that time.

Mr. Chairman, during the early part of November as we considered the Florida storage situation and disposition alternatives, I

think it important to point out what was taking place in the domestic sugar market at that time. After the takeover by CCC on October 1 of the approximately 300,000 tons of forfeited Florida sugar, nearby future prices began a moderate upward trend and on November 8 were 18.75 cents per pound, a recovery of about 28 percent of the price decline from September 12 to September 30, which I mentioned earlier.

These market prices, as quoted by the New York Coffee and Sugar Exchange, are c.i.f. destination prices. The small recovery in prices which had occurred by early November were still considerably below the market stabilization price of 21.5 cents per pound. Consequently, sales by CCC of the sugar into the marketplace for its primary use appeared to be out of the question because of depressed market prices, and it appeared that market conditions would prevent CCC from entering the market for some time to come.

We decided that we did not want to make large additional investments in the sugar that would be necessary to move it the considerable distance to Tampa and load it into the nearest available commercially owned warehouse space. ASCS explored other storage alternatives but none proved to be feasible. Sugar must be adequately protected while in storage or the potential result would be a total loss of the sugar through deterioration.

In view of: One, the inability of CCC to enter the domestic market and sell the sugar for its primary use;

Two, the problems and costs associated with refining the sugar and selling it into the world market; and

Three, the reluctance of CCC to make additional outlays to relocate the sugar, outlays which would not likely be recovered through sales; we decided to invite competitive offers to purchase a portion of CCC's sugar stocks in Florida for use restricted to the manufacture of ethanol. Such sales, if successful, for other than primary uses would not further depress market prices for sugar or interfere with CCC's sugar price support operations.

The successful sale of the sugar by CCC did have several positive effects, Mr. Chairman. The action increased the availability of warehouse space for the storage of new crop sugar in Florida without CCC making additional outlays to relocate the sugar. The sale enhanced domestic prices somewhat through the removal of some surplus sugar from the sugar market. Some of CCC's costs that would have been incurred in storing the sugar have also been saved.

In conclusion, Mr. Chairman, our decision to dispose of CCC sugar for purposes of ethanol production resulted from an indepth review of those options for disposing of the sugar which would accomplish the two-pronged objective of avoiding the costs of relocating Florida sugar while at the same time assuring that the disposed sugar would not once again end up as CCC stocks. Options which had the potential for meeting these objectives were restricted use sales of raw cane sugar which would not displace domestic raw sugar utilization. The restricted use options included domestic sales for a nontraditional use of sugar and sales for export on international markets. The principal nontraditional use which could absorb the 122,000 short tons was ethanol production. By compari-

son, the option to dispose of the sugar in international markets was not as attractive. If the raw sugar had been refined for export, CCC would have netted only about 3 percent of CCC acquisition costs.

That completes this formal statement, Mr. Chairman. I will be pleased to answer your questions.

Mr. ENGLISH. Thank you very much, Mr. Amstutz. I do have some questions and I want to try to set the record straight so that there is no misunderstanding with regard to your function. First, is it correct that the bylaws of the Commodity Credit Corporation designate the Under Secretary for International Affairs and Commodity Programs as President of the Commodity Credit Corporation?

Mr. AMSTUTZ. That is surely my understanding.

Mr. ENGLISH. And second, is it correct that the CCC policy document on disposal of inventory authorizes the President of the Corporation to make the decisions?

Mr. AMSTUTZ. That is perhaps true. I guess that is true. Yes.

Mr. ENGLISH. You are the man in charge. Don't you know whether it is true or not? You don't know what your authority is?

Mr. AMSTUTZ. As a matter of policy, whenever we address a new policy question, it is my policy as President of CCC to make sure that the Secretary, or the Chairman of the Board of the CCC is of course also in agreement.

Mr. ENGLISH. But the question I was asking you is, do you know what your authority as President of the CCC is?

Mr. AMSTUTZ. Well, then the answer is, yes.

Mr. ENGLISH. There seemed to be some doubt in your previous answer. You had to ask somebody whether you had that authority.

Mr. AMSTUTZ. The reason for the doubt is I wanted to provide you with a technically correct answer, Mr. Chairman, but as I said, I have just explained the way I operate, also.

Mr. ENGLISH. Third, is it correct that in your testimony when you state that CCC decided—I believe that is the quote, CCC decided—it really means that you decided in your capacity as President?

Mr. AMSTUTZ. Yes.

Mr. ENGLISH. Before deciding to sell the sugar, did you discuss the policy implications with other officials in the Department, specifically with the Secretary or Deputy Secretary?

Mr. AMSTUTZ. Yes, I did, and that is what I was alluding to in that previous answer, Mr. Chairman. Yes, I did.

Mr. ENGLISH. And when you decided to sell the Florida sugar for ethanol conversion, did you have any analysis prepared to explore all the various alternatives which are authorized?

Mr. AMSTUTZ. Yes, sir.

[An analysis prepared by the Foreign Agricultural Service follows:]

COMPARISON OF COMMODITY CREDIT CORPORATION NET RECEIPTS
FROM SALE OF SUGAR FOR VARIOUS RESTRICTED USE PURPOSES

1. Sale of Commodity Credit Corporation Raw Sugar on International Markets

World Price (#11 Contract):..... 4.50 ¢/lb.
 Minus: Transportation & Relocation Charges..... 1.75 ¢/lb.
 Equals: Commodity Credit Corporation Receipts Net of Costs.... 2.75 ¢/lb.

2. Refining of CCC Raw Sugar for Export on International Markets

World Price (Paris White FOB Equivalent U.S. Port)..... 7.50 ¢/lb.
 Minus: Transportation and Processing Costs..... 7.00 ¢/lb.
 Equals: Commodity Credit Corporation Receipts Net of Costs.... 0.50 ¢/lb.

3. Sale of Commodity Credit Corporation Raw Sugar for Ethanol Production

Commodity Credit Corporation Sales Price..... 3.00 ¢/lb.
 Minus: Transportation Costs..... 0.00 ¢/lb.
 Equals: Commodity Credit Corporation Receipts Net of Costs.... 3.00 ¢/lb.

4. Expected Bid on CCC Raw Sugar For Ethanol Production

Price of Ethanol..... \$1.60/gallon
 Minus: Processing Costs in Making Ethanol..... \$0.90/gallon
 Equals: Raw Material Costs in Making Ethanol..... \$0.70/gallon
 Divided by Number of Lbs. Sugar to Make Gal. Ethanol (14).... 5.00 ¢/lb
 Minus: Transportation from Florida to Ethanol Processor..... 2.00 ¢/lb.
 Equals: Expected f.o.b. bid and CCC Receipts Net of Costs... 3.00 ¢/lb.

Mr. ENGLISH. And you did thoroughly examine the issue of holding that sugar for sale when prices would rise?

Mr. AMSTUTZ. Yes.

Mr. ENGLISH. And you did explore donating or the sale for domestic or foreign feeding programs?

Mr. AMSTUTZ. Yes; we explored all manner of use possibilities.

Mr. ENGLISH. And you did explore the conversion to ethanol and the sale of that ethanol as one of the options?

Mr. AMSTUTZ. Yes, sir.

Mr. ENGLISH. And what about bartering? Did you consider bartering? Did you look into bartering?

Mr. AMSTUTZ. On an ongoing basis. We have an ongoing system of looking at barter possibilities, and to that extent that was considered. Did we launch a specific new effort to find a barter outlet in this particular case? I can't say that we did, Mr. Chairman.

Mr. ENGLISH. Well, that was one option that you did not specifically weigh?

Mr. AMSTUTZ. Well, other than on an ongoing basis. Our intelligence was there were no real possibilities.

Mr. ENGLISH. And then also I believe you are provided with the authority to donate it to correctional institutions?

Mr. AMSTUTZ. Yes.

Mr. ENGLISH. Did you examine that possibility as well?

Mr. AMSTUTZ. Yes.

Mr. ENGLISH. Did you, Mr. Amstutz, sign a document that specifically authorizes the CCC operating personnel to offer the sugar for sale for conversion to ethanol?

Mr. AMSTUTZ. Mr. Chairman, perhaps I did. I surely authorized it. What documents I signed at that time I really don't remember.

Mr. ENGLISH. Would you ask your staff behind you then whether you did or not?

Mr. AMSTUTZ. In this case it was oral.

Mr. ENGLISH. No signed document?

Mr. AMSTUTZ. That is what I am told.

Mr. ENGLISH. Whenever you advertise, and I assume you did advertise that the sugar was being offered for conversion, when did that take place and how did you do it?

Mr. AMSTUTZ. We did it in the regular process, Mr. Chairman, and this was held publicly. I can send up to you for the record the specific dates of when we released the announcement of the tender process. I just don't have those dates in my mind, but I will send them up to you.

[CCC's sales announcement, invitation for bids, and note to correspondents were issued on December 3, 1985. Those documents, along with CCC's news releases of December 23, 1985, concerning the sale of the sugar to Shepherd Oil, Inc., were submitted and are retained in subcommittee files.]

Mr. ENGLISH. Could you tell us the manner in which you advertised?

Mr. AMSTUTZ. Well, the normal process for a disposition such as this, once the decision was made it was put out in the public sector and released in the regular way to the press as well as to other interested parties. They have just handed me an announcement,

the date issued, December 3, 1985, announcing the full specifications of the offer to sell.

Mr. ENGLISH. Where did that information—where was it released to, and in what manner was it released? What manner was it advertised?

Mr. AMSTUTZ. It was released by our Kansas City office, which is the normal point of releasing all of this kind of sales information.

Mr. ENGLISH. Was that just a simple press release?

Mr. AMSTUTZ. No, no, no. It was in addition to a press release. It was sent to—we have a regular mailing list, and I forget how many people are on it or firms are on it, in addition to the press.

Mr. ENGLISH. What kind of a mailing list is that? Is that people who would be in the ethanol business?

Mr. AMSTUTZ. Yes.

Mr. ENGLISH. They are specifically people who would be involved in that industry?

Mr. AMSTUTZ. That is my understanding. Here again I will send all that up to you, Mr. Chairman.

[The information follows:]

At 3 p.m. on December 3, 1985—the day CCC issued the sales announcement and invitation for bids to purchase the sugar—representatives of the Agricultural Stabilization and Conservation Service and USDA Office of Energy met with representatives of Alcohol Week, Information Resources, Inc., Renewable Fuels Association, and ADM to explain CCC's action and to request their assistance in informing their readers, members, or firms about the proposed sale and invitation for competitive bids. In addition, the Kansas City Commodity Office mailed copies of the announcement and invitation to everyone on its sugar mailing list and a supplementary list of ethanol manufacturers or other interested parties who we either knew about beforehand or who asked to be added to the list as a result of articles in the news or other publications. While a few of the firms or individuals on these listings may have been added subsequent to the closing date for bids, there are now about 32 names on the ethanol list and 227 on the sugar list. We are furnishing a copy of these mailing lists to the subcommittee for its information.

[The mailing lists are retained in subcommittee files.]

Mr. ENGLISH. Well, the reason I am asking, Mr. Amstutz, some of the people in the industry have indicated to our staff that the first that they had heard of such a sale being made was it was announced that it had already been made, and that they did not have an opportunity to compete.

Mr. AMSTUTZ. This is the first I have heard of that, Mr. Chairman.

Mr. ENGLISH. Well, that is the reason we are most interested in the manner in which it was advertised and the people within the industry that were notified.

Mr. AMSTUTZ. They also just handed me a copy of the national press release issued the same day as this invitation.

Mr. ENGLISH. Of course press releases, I think we are all well aware up here, we depend upon the media carrying them. If they don't carry them, why that doesn't do a whole lot. So that is the reason I am interested in whether you did more than just a general press release or whether the people who were within the industry and who might be possible bidders were specifically notified.

Mr. AMSTUTZ. The fortunate thing for us in the Department of Agriculture in that regard, Mr. Chairman, is that the media that as a matter of course carry all of our press releases are the broad-

tape services. News services such as Reuters and the Commodity News Service.

Mr. ENGLISH. I see. Well, again I would say it would depend upon whether it is specifically aimed at this industry. For instance, the Cordell Beacon didn't carry that, I can tell you that right now.

Mr. AMSTUTZ. That I understand.

Mr. ENGLISH. Well, don't tell me that everybody has carried it and everybody saw it.

Mr. AMSTUTZ. I understand. But what I am relating to is that I am unaware of any processor that doesn't have broadtape, direct broadtape service to Reuters and/or Commodity News Service.

Mr. ENGLISH. Mr. Amstutz, did you think to require a minimum sales price to minimize the competition with corn or other commodities as a feedstock for ethanol?

Mr. AMSTUTZ. Well, we surely had that in mind as we considered these bids, Mr. Chairman, yes. If your question is did we understand the possible ramifications of a sale like this on other commodities, the answer is absolutely yes.

Mr. ENGLISH. Well, then why did you not have a minimum sales price?

Mr. AMSTUTZ. Well, as I said, we considered it in our consideration of the bids, and in that process we thought we protected against this possibility.

Mr. ENGLISH. And you sold at about 3 cents?

Mr. AMSTUTZ. About 3 cents.

Mr. ENGLISH. What if the bid had come in at, say, 1 cent; would you have sold?

Mr. AMSTUTZ. No, we wouldn't have. And that is I understand well after the fact, but no, we wouldn't have.

Mr. ENGLISH. Would you have sold at 2 cents?

Mr. AMSTUTZ. No, I really don't think so.

Mr. ENGLISH. What is magic about 3 cents?

Mr. AMSTUTZ. These questions are judgment, not science.

Mr. ENGLISH. If I remember correctly, just off the top of my head, as far as ethanol is concerned at that 3 cents price you would have to have something better than 6 cents to break even as far as corn prices were concerned. Is that correct?

Mr. AMSTUTZ. I am not sure what those figures are. I had in mind probably around a nickel delivered into the areas where it was being processed, and on top of the 3 cents sale price we had transportation. Our judgment of it at this general price level was that since it was especially a one-shot occurrence to alleviate the storage problem, that it really was not going to be disruptive.

Mr. ENGLISH. Well, you are saying a nickel. I am saying 6 cents, maybe 7 cents, somewhere in that neighborhood. But that is the break-even price with corn. Now, obviously, any of the sugar that was used for ethanol was taken away from corn. That meant that corn would not be used to produce ethanol and therefore would very likely go into CCC hands. So in effect, what you did was you displaced corn that would have been sold by undercutting it by in the neighborhood of a half through your sales of sugar, and therefore condemned corn to come into CCC hands. So you know, you are taking it out of one pocket and putting it in the other, and you are taking a big loss when you do it.

Mr. AMSTUTZ. Well, your point is very well taken, Mr. Chairman, about the dangers of displacement of sales out of CCC inventory for almost any use. And so conceptually on the overall subject, I have great sensitivity to the point you are making.

In this particular case I just ask you to consider what I have said. That in round numbers the sales price was not 3 cents delivered to these plants, it was 3 cents at point of origin.

Mr. ENGLISH. Well, you are saying 5 cents delivered to the point and—

Mr. AMSTUTZ. Delivered to the point and in this particular case, and not to beg the question on the overall problem of displacement, which, I repeat again, I agree is an enormously important question. In this particular case this particular processor was not a user of corn for ethanol, he was a user of molasses. But having said that, I repeat again I am sensitive to the problem of displacement. That is why I said also a one-occurrence sale. We made no announcements about additional sales of these stocks once this problem was alleviated.

But these are delicate, difficult questions. Somebody once said that this whole problem of displacement is sort of like a balloon—you push in one place and it pops out another—and there is great truth to that.

Mr. ENGLISH. Well, that is exactly what we are talking about, Mr. Amstutz, and these are decisions that you made personally.

Mr. AMSTUTZ. Yes.

Mr. ENGLISH. Your responsibility as head of the CCC. And what we have, it would be one thing if we simply took the sugar over here and we put this in the ethanol market. That means you are going to displace this much corn, and that corn then is going to go back to CCC. So you have taken it out of CCC stocks on sugar and gotten rid of it but you brought it back in in corn.

Now I suppose one can say, well, if you are a corn farmer that is bad, and maybe from a sugar standpoint that may not be so bad because you have gotten rid of that sugar, and that may be the way you would look at it if you are weighing it out. But the fact of the matter is that the Government lost a lot of money over this deal. It is not an even trade, you know; the Government took a big hickey on this deal. What is it, \$30-some-odd million? Is that what it is, \$36 million, \$35 million, that you all lost on this deal?

Mr. AMSTUTZ. I believe so. But that gets us into a discussion of the program—

Mr. ENGLISH. \$36 million.

Mr. AMSTUTZ. That gets us into a discussion, Mr. Chairman, of the program itself on sugar.

Mr. ENGLISH. Well, we are talking about your actions here and specifically what impact it has upon the markets now. The last time, as I said in my statement, the last time the U.S. Government took on a sizable amount of sugar in CCC inventory it eventually disposed of that sugar not at a loss and made a profit off of it; \$60-some-odd million of profit.

Mr. AMSTUTZ. Well, Mr. Chairman, at that time if you recall there was an extraordinary runup in sugar prices which I think most analysts would say was an aberration and a phenomenon.

Mr. ENGLISH. Well, we have a philosophy that has been put in place, at the insistence of this administration, through the 1985 farm bill that tells us things are going to get great. Things are going to go up. We have great things to look forward to. And here you are, you have just blown the opportunity for the U.S. Government to recover its expenditures through CCC and possibly make a profit.

You don't have the faith, Mr. Amstutz?

Mr. AMSTUTZ. Mr. Chairman, no one from this administration has prophesied sugar prices to rise to the levels they did in this period to which you are referring.

Mr. ENGLISH. Are sugar prices going to rise at all?

Mr. AMSTUTZ. Well, they have, as a matter of fact, subsequent to this particular period in time we are talking about right now. I think current levels for raw sugar around the world are around 8 cents a pound. That is well under our support prices here in this country, but well over what the market was around the world at the time we sold this. In round figures I think the raw market around the world at the time we are talking here was something like 3 cents a pound. It has risen to something like 8 cents a pound now. Our support price, of course, is well above that.

Mr. ENGLISH. I believe one of those options that you had available to you was to sell overseas, was it not, Mr. Amstutz?

Mr. AMSTUTZ. Yes, Mr. Chairman.

Mr. ENGLISH. And here you are telling me that you sold it at 3 cents a pound, and here we are 6 months later, a little less than 6 months later and it is selling at 8 cents. You lost a nickel—

Mr. AMSTUTZ. That is not correct, Mr. Chairman.

Mr. ENGLISH [continuing]. With your decision, Mr. Amstutz.

Mr. AMSTUTZ. That is not correct, Mr. Chairman. Remember that the great pressure that precipitated our action was the need for storage space for sugar in Florida and a need that was immediate. We didn't have the luxury to address that problem and await further developments. And at that time the only real market opportunity overseas was as refined, and the refined market overseas was some 7½ cents a pound at that time, and our cost of converting from raw to refined and getting it in exportable position would have been about 7 cents. So we would have netted one-half cent per pound in selling it in overseas markets at that time versus the round figure of 3 cents that we gained in disposing of it the way we did.

Mr. ENGLISH. Mr. Lightfoot.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

Mr. Amstutz, you may have to submit this for the record—I don't imagine you have it on the top of your head—but, could you tell us what costs were involved in the storing, the maintaining, the insuring, and the transporting of the sugar out of the reserve, and also corn costs as compared with sugar?

Mr. AMSTUTZ. Mr. Lightfoot, I don't have those figures in my head and we will send them up for the record.

[The information follows:]

We estimate that 1 gallon of ethanol can be produced from about 13 pounds of sugar, and that 2.5 gallons can be produced from a bushel (56 pounds) of corn. Based on these estimates, Shepherd Oil should produce about 18.75 million gallons of etha-

nol from the 121,895 tons of sugar it purchased from CCC. Approximately 7.5 million bushels of corn would be needed to produce an equivalent quantity of ethanol. While CCC realized an estimated annual savings of \$2.1 million in sugar storage costs, the savings that would be realized in corn storage costs would depend on CCC's storage rates at the locations where the corn was made available. Such savings could be as small as \$1.6 million but would likely be closer to that realized from the sugar.

Mr. LIGHTFOOT. Is there a USDA policy position on making surplus commodities such as corn and wheat available to ethanol producers? Is there a set policy for that?

Mr. AMSTUTZ. The new farm bill addresses this particular question, Mr. Lightfoot. I think it is section 1024. If not, I would like the record to be correct.

Mr. LIGHTFOOT. That is fine.

Mr. AMSTUTZ. The law says, in my language, that the Secretary is authorized to sell commodities out of CCC inventory for use in ethanol manufacture. The law clearly gives the Secretary of Agriculture authority to set the price on that from zero on up. The law also enjoins the Secretary to address the questions that the chairman raised earlier on displacement and says to the Secretary that to the extent this is done, in other words, sales out of CCC inventory at a discount under market value, that it be done in such a way as to not displace these commodities, whether it is corn or whatever, having access to those market outlets.

And your question, Mr. Lightfoot, is particularly appropriate because at this particular time the Secretary is giving close consideration to this subject, to this particular section of the law as it relates to some ethanol manufacturers who are in deep financial difficulty right now. We have been in close contact with these ethanol producers and this question is under very active consideration right now.

Mr. LIGHTFOOT. Your memory was correct, it was section 1024. It basically says:

The Corporation may, under terms and conditions established by the Secretary, make its accumulated stocks of agricultural commodities available, at no cost or reduced cost, to encourage the purchase of such commodities for the production of liquid fuels and agricultural commodity byproducts.

And it goes on to say that those commodities shall be made available:

In such [a] manner as to encourage increased use and avoid displacing usual marketings of agricultural commodities.

And I think that is where our point of discussion is.

Mr. AMSTUTZ. Yes.

Mr. LIGHTFOOT. That it is to be done in such a manner as to encourage the increased use but avoid displacing usual marketings of agricultural commodities. I think that is where our question is at this point in time.

Mr. AMSTUTZ. That is this delicate area that the chairman raised.

Mr. LIGHTFOOT. What is your personal position on ethanol? Do you think it is a good product?

Mr. AMSTUTZ. I don't think there is any question about it being a good product. There is a plethora of analyses as to the economics of ethanol, but that is another question and I don't consider myself an

expert in that area. But as to whether it is a good product or not, I don't think there is any question about that. It is just the cost of producing it.

Mr. LIGHTFOOT. As far as the precedent that was set by selling the sugar at roughly 3 cents a pound, is this a one-shot deal or is this a signal to people in the sugar business that, hey, we better go out and woo these ethanol people, we can get it away from the corn farmers?

Mr. AMSTUTZ. Well, I said in response to the chairman's question that it is a matter of record, Mr. Lightfoot, that we entered into this particular operation that this hearing is all about principally to address this problem of a storage problem in a particular area on a particular quantity. And actions speak a whole lot louder than words I think; and having addressed that problem, we haven't made any more announcements about this. I really can't control how people think, but it has not come to me in any way, shape, or form that sugar producers or sugar refiners have any thoughts that our interest in sugar on a macro-policy basis is other than its primary use.

Mr. LIGHTFOOT. So it is a one-shot deal then?

Mr. AMSTUTZ. Addressing that particular problem. Now I can't prophesy when we will have other problems that pop up relating to storage.

It is my hope—let me add this for the record, Mr. Chairman. We have had an ongoing policy of disposing of our sugar inventory as expeditiously as possible in as sensitive a way as possible relative to market realities. We took over beet sugar in the beet area at some eight facilities. We have so far been successful in selling all of the sugar, the beet sugar, we have stored in seven of those eight facilities for domestic primary use. We have out of some 2.2 million hundredweight, I believe that is the quantity, we have sold all but 300,000 hundredweight. And we will continue with that effort.

We would like to dispose of the remainder of our cane sugar and do so during the remainder of this fiscal year. We are examining on an ongoing, continual basis methods of doing that in, as I have said before, as sensitive a way as we can from the standpoint of market realities, displacement, distortion, and so forth. The law, the new farm bill also gives us plenty of encouragement to eliminate our inventory of sugar prior to the commencement of the next year. But over and above that it is our desire to do it. And so far we have been relatively successful and I am quite hopeful in the not too far distant future we will be liquidated on all of our beets.

And as I say, I don't want to be too—I am not trying to withhold information from the committee, but we are really doing our best to find a reasonable and a good outlet for this cane sugar. The reason I am sort of cryptic about it, I don't want the world to know where and how we are working on it right now. We are working principally overseas.

Mr. LIGHTFOOT. I guess, you know, all of us want to see what is the fairest thing for everything. But the reason I asked the question is because I am on the Public Works Committee and one of the issues that we are going to be fighting over there is that the administration wants to eliminate the exemption for gasohol—the tax exemption. When I brought that up in a hearing, about a month ago,

the response from the people with the highway department was that we don't know why you want that tax exemption anyway, because all it is benefiting is four or five big sugar producers. And their perception of the situation is that, apparently from this particular sale, the corn farmers aren't benefiting from it at all. Of course in our areas, as you are well aware, it is a big item with us and it is very important that we keep that tax exemption and that we continue to promote ethanol production. I think it is a way that we have to go.

It is my understanding there is something in the neighborhood of 10 million tons of surplus sugarcane in the Caribbean Basin Initiative. There are some, in my opinion, unfair practices there in that they can take the wet alcohol and dry it and then ship it in duty free, and we are losing several million dollars a year in duty. Do you have a position on these dewatering facilities, as they call them, to dry that alcohol out so they can ship it in?

Mr. AMSTUTZ. Well, as I recall and it is my understanding that one of the serious market distorting loopholes in that area has been closed. In other words, moving product in from non-CBI countries for processing and then eventual export to the United States free of duty. That particular loophole has been closed, and it has been my thought that that has addressed a lot of the problems in this particular area.

Now it certainly is the administration's policy in the context of the Caribbean Basin Initiative to be helpful to the economies of those some 26 CBI countries, and we are very sensitive to the ramifications of this as it relates to our constituents in agriculture. As part of our policy as it relates to the CBI we have this so-called fast track approach. That when and as industries in agriculture sense or feel that they are being injured by our sort of open door policies with these countries we will specifically address these issues.

Mr. Lightfoot, I am aware of concerns about this but I am truly not aware of any specific fast track requests we have had. And I surely supported closing that loophole where a CBI country could be an in-transit processor. That was abuse, as I saw it, of that CBI question.

Mr. LIGHTFOOT. One final question—and this will be something you would have to do for the record for us—but, could you give us some information on how much the Government would save if we released corn out of the reserve for use in ethanol production? What we are going to save on storage and this type of thing?

Mr. AMSTUTZ. We will. I will send that up. And what we will do is we will send up a rather complete study on it because it also gets into this displacement area, the sort of a macro point the chairman made, and when he would probably contend that I was sort of waffling on my answer. And the reason I was waffling is that you see, as I said to the chairman, I have no argument with him whatsoever on a macro basis what can happen.

This gets to the displacement sentence in that particular section of the law which is enormously important. One of the very distinct possibilities is that as Government-owned inventory fills demand in any particular area of processing or usage it can displace regular commercial filling of that demand, and that displacement can result in the CCC taking over more grain and raising CCC's operat-

ing costs. But we will send up a complete study so you can take a look at it.

Mr. LIGHTFOOT. OK. I would appreciate that.

[The information follows:]

USDA currently has an assessment underway of fuel ethanol production on agriculture and agricultural programs, but the study is not yet ready for release. We will be pleased to furnish the report to the subcommittee when it is completed.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you, Mr. Lightfoot.

Mr. Amstutz, in your testimony you keep referring to refining the sugar and offering it for export. Did you ever consider offering the sugar for sale in its raw state? That is the manner in which it is normally sold, and I noted that as of the day on which the sale was made raw sugar was selling for about 5 cents.

Mr. AMSTUTZ. Mr. Chairman, your question is, Do we consider selling it as raw? And the answer is absolutely yes. In these areas that I alluded to in response to Mr. Lightfoot's question and our desires to liquidate this inventory, virtually all of the overseas possibilities we are looking at are as raw.

Mr. ENGLISH. Well, then the question comes back down, you sold it for 3 cents when you could have sold it in the world market for 5 cents on the very day that the sale was made.

Mr. AMSTUTZ. No, Mr. Chairman.

Mr. ENGLISH. You lost 2 cents.

Mr. AMSTUTZ. Mr. Chairman, I don't take back what I said. At that particular time the only viable outlet we saw was at 7½ refined. At that particular time, and I emphasize that we have to think in terms of the time constraints with which we were working. At that particular time the information I had then and still have, as we have readdressed this, was that the only viable alternative was a 7½ cents refined outlet overseas.

Mr. ENGLISH. And the world market was 5 cents for raw sugar?

Mr. AMSTUTZ. The world refined market was 7½. Probably, there is usually about 2½—there is usually roughly a \$2.50 to a \$3 spread between raw and refined.

Mr. ENGLISH. The question is, then, Why you didn't sell it as raw sugar for a nickel?

Mr. AMSTUTZ. You can't sell it to the Wall Street Journal, Mr. Chairman, you have to find a buyer. So I am not denying what a published price of value was. I am saying that the only real viable outlet at that time was a refined buyer at 7½ cents.

Mr. ENGLISH. Did you offer it? Did you offer to sell this sugar at 5 cents?

Mr. AMSTUTZ. I was unaware of any buyer in there at 5 cents.

Mr. ENGLISH. But I didn't ask you whether you were aware of any buyer. I asked you—

Mr. AMSTUTZ. Would we have sold it at 5 cents, sir?

Mr. ENGLISH. No, I asked you did you offer it? Did you put this out? Did you make an announcement: Here, we will sell it at the world market price, we have so much?

In fact, the market price on that date was 5½ cents. If you had sold it at 5 cents, you know, we will take a half cent loss to sell this sugar. Did you offer anything like that?

Mr. AMSTUTZ. Mr. Chairman, there were no outlets available to

us—

Mr. ENGLISH. I didn't ask you that, Mr. Amstutz.

Mr. AMSTUTZ [continuing]. At more than what we sold it for at that time.

Mr. ENGLISH. I am asking if you offered it.

Mr. AMSTUTZ. We would have been happy to offer it had we had a place to offer it.

Mr. ENGLISH. I didn't ask you that. I asked you did you offer it.

Mr. AMSTUTZ. I think I have answered your question, Mr. Chairman.

Mr. ENGLISH. No, you haven't. It is yes or no. Did you or did you not offer it?

Mr. AMSTUTZ. We had no place to offer it at that kind of a basis.

Mr. ENGLISH. So you did not offer it at 5 cents.

You stated that the forfeiting processors offered to lease the warehouse space for storing sugar, but you did not know what they might charge the CCC. Did CCC consider leasing any space to store this sugar?

Mr. AMSTUTZ. Well, we looked into it, Mr. Chairman, and our estimate was because of the cost of moving it, which I did refer to as \$15 a ton, that it just didn't make economic sense for us to store it.

Mr. ENGLISH. Well, let's see. That \$15 a ton, that figures about 3 cents a pound on that doesn't it? Is that what you are talking about?

Mr. AMSTUTZ. Yes; that is just the transportation.

Mr. ENGLISH. All right. Let's figure just a little bit here. At 3 cents, sir, how much is the storage? How much was the storage that you looked into?

Mr. AMSTUTZ. The rental fee, as I recall it, on this particular warehouse was \$1 million or thereabouts.

Mr. ENGLISH. And how much would that—

Mr. AMSTUTZ. So that was 100—my memory is not that good, but that was for 120,000 tons, something like that.

Mr. ENGLISH. 120,000 tons. And that was \$1 million a year?

Mr. AMSTUTZ. Yes.

Mr. ENGLISH. Are you sure of that?

Mr. AMSTUTZ. Well, my people have converted this to a pound and they reckon that the storage costs, per se, were roughly 7 cents a pound per year.

Mr. ENGLISH. Seven cents a pound per year for storage?

Mr. AMSTUTZ. That is what I am just hearing. We can send something up for the record.

Mr. ENGLISH. Well, you better do a—do a little more figuring over there, would you? You keep working on that yellow pad. I think your arithmetic is a little off on that. Probably is.

Did you have any competition down in that area? Did you say, well, USDA is looking for storage and we would like to take some bids; whoever has some storage available, offer us bids? Or did you just go out there and say, now this is the brightest, shiniest, best looking warehouse we have; how much you want for it?

Mr. AMSTUTZ. Our judgment was, and I have really addressed this, Mr. Chairman, that there would be no advantage to the taxpayers of this country or any of the farmers of this country, wheth-

er sugar farmers or corn farmers, for the CCC to maintain an inventory of sugar.

Mr. ENGLISH. I see. Well, we have found out right now if you had just held it 6 months you would have made a nickel a pound on it. Here we have made up a nickel, and you say you have 3 cents in transportation costs.

Mr. AMSTUTZ. That is speculation, Mr. Chairman, and we didn't have that—

Mr. ENGLISH. You didn't want to do that.

Mr. AMSTUTZ. We were addressing an immediate problem, Mr. Chairman.

Mr. ENGLISH. Yes. Well, your immediate problem was that the association where you had the sugar stored, they needed the room. Now they were willing to go out and lease some other storage, but you didn't even get a quote from them on that, did you? Did they tell you what that additional storage was going to be, Mr. Amstutz?

Mr. AMSTUTZ. Oh, we had considerable meetings with them and our judgment was that we were, by the time we were through we were going to be adding a lot of investment into the sugar.

Mr. ENGLISH. Let's wait up just a minute. I am not interested in judgment. I want to know what you checked on. I don't want this "fly by the seat of your pants" feeling, gut feeling about what things ought to be like. I want to know specifically did that organization—

Mr. AMSTUTZ. We will send it to you.

Mr. ENGLISH. Wait a minute now, Mr. Amstutz. You are the one that made the decision on this and you ought to know about it. The thing I am specifically asking you is did you get a quote from those folks as to what that additional storage would be, from the association that you had that sugar stored with?

Mr. AMSTUTZ. Well, the answer to that is yes, and that is why I want to send up to you, Mr. Chairman, all of the correspondence and records on this.

Mr. ENGLISH. All right. Well, what I want specifically is the amount of the quote that you got for that additional storage.

Mr. AMSTUTZ. And I will send that on up to you.

Mr. ENGLISH. That is fine. That is fine.

[The information follows:]

Based on an estimated freight cost of \$15 per ton to transport the sugar to Tampa, total costs to move the 121,895 tons would have been over \$1.8 million. Assuming that CCC would have been able to negotiate a storage rate with the Florida Sugar Marketing and Terminal Association comparable with the rate negotiated with the individual Florida processors currently storing CCC's remaining inventory, the total storage costs for one year would have been over \$2.1 million. CCC is currently paying the Florida processors a rate of 0.87 cent per pound per year, or \$17.40 per short ton, to store and maintain its raw sugar stocks.

Mr. ENGLISH. Now the second question I want to ask you. You got this million dollar warehouse out here. Did you request bids in that area? See what storage was available and ask bids from the people that owned those warehouses?

Mr. AMSTUTZ. This is where we got into the judgment. We saw what these costs would be at that time and we decided that it would not be prudent in exercising our fiduciary right or obligations to maintain storage stocks.

Mr. ENGLISH. So you did not even go out and solicit any bids for any warehouses?

Mr. AMSTUTZ. Beyond this discussion, no, because we made that decision that I have already mentioned, Mr. Chairman.

Mr. ENGLISH. Your decision was that we just want to unload and get rid of this sugar, we are not interested in storing it? Is that what your discussion—

Mr. AMSTUTZ. I would say it a little bit differently, but in a sense I have said that using other words at this hearing.

Mr. ENGLISH. Your judgment was that we are willing to accept a 15-cents-a-pound loss so we don't have to store it?

Mr. AMSTUTZ. I will state it another way, Mr. Chairman. I mentioned to you before that some of this gets back into the elements of the program itself. Our Sugar Price Support Program calls for very high prices. By no stretch of our imagination, as we look ahead, unless we would prophesy an aberration such as existed in this I think 1979-80 period that you alluded to before, in no stretch of our imagination are we going to have sugar prices up at those kind of levels.

Mr. ENGLISH. You are willing to take a 15-cents-a-pound loss, then?

Mr. AMSTUTZ. Well, a loss relative to a very high price, that is what I am trying to say, Mr. Chairman.

Mr. ENGLISH. Well, I don't care. That was not your decision to make, Mr. Amstutz. You are not the man that legislates. You are not the President of the United States that signs into law farm legislation, are you?

Mr. AMSTUTZ. Well, that is right.

Mr. ENGLISH. So really your job is to administer the law, not to sit around back there and pontificate with regard to whether you like the way it is set up or not; isn't that right? Isn't that right, Mr. Amstutz?

Mr. AMSTUTZ. That is right, Mr. Chairman, but there was no pontification in this regard.

Mr. ENGLISH. Well, it sounds like you are pontificating here before this committee. Telling us all about what you like and don't like about the farm bill. Isn't that right?

Mr. AMSTUTZ. I didn't think we were saying that. I was talking about the reality of our Sugar Price Support Program.

Mr. ENGLISH. The reality, Mr. Amstutz, is that you have cost this Government 15 cents a pound on sugar. That is the reality that you are facing.

Mr. AMSTUTZ. It is your right to have that judgment, Mr. Chairman.

Mr. ENGLISH. Well, that is a reality. That is simple arithmetic. That is what it cost. The U.S. Government took a loss of 15 cents a pound by your action, your decision. You are the one that decided that.

Now what you have told us is that the reason that you did that is because you did not want to store that sugar. And you give us as the reason that you didn't want to store it is because you thought the storage was too high.

Mr. AMSTUTZ. It would have a negative effect on our operations under the farm program. Remember we are enjoined to operate the

farm program to the best of our ability in a way that will assure that market prices as cleared in this country exceed the support price.

Mr. ENGLISH. And as the law calls for, Mr. Amstutz, as the law calls for. Under the specifics of the law, that is how you are supposed to operate, right?

Mr. AMSTUTZ. Yes. Under the specifics of the law what we did is well under those. You cited them, Mr. Chairman, in your opening statement really.

Mr. ENGLISH. Yes, I did, Mr. Amstutz. I did, indeed. But the question of this subcommittee, the issue before this subcommittee and another part of your responsibility has to do with efficiency and economy, trying to administer these programs where the cost is the least or the impact is the least. What we are doing is questioning your judgments, your decision, and the options that you had made available to you under the law.

Now the decision that you made cost this Government 15 cents a pound; \$36 million is what your decision cost this Government. Now the thing we are trying to come down to and look at is whether or not that loss was necessary. Did the U.S. Government and the taxpayers and the farm program, the farmers of this Nation, did they have to take that \$36 million loss?

Now in looking at today's market price, it is at 8 cents. Looking at what the raw sugar price was back in December, it was 5 cents; and you sold it for 2 cents below that. We have already raised the impact as far as the overall farm program where you may have cost the corn farmers of this Nation by displacing a part of their market through your actions. So we lose 2 cents because you didn't even bother to offer it into the world market. It cost the corn farmers goodness knows how much because of the displacement. And as far as the CCC is concerned, you cost them \$36 million. By the same token, we didn't save anything because the corn that would have otherwise sold in this market is going to be coming into CCC hands. That is what we are looking at, Mr. Amstutz.

Did you consider storage in port areas other than Tampa and on the gulf coast?

Mr. AMSTUTZ. Our judgment, Mr. Chairman, was as I have said before. That storage would just add to cost, and you have alluded to the problem of cost already in the statement you just made, and would negatively impact on our ability to operate the program in such a way to help ensure that sugar prices in this country clear support levels. Actually, clear MSP levels.

Mr. ENGLISH. You had 15 cents to play with, in effect. Looking at what you sold it for and, in effect, what you cost the Government, 15 cents is what you had in there. That is an awful lot of room—

Mr. AMSTUTZ. That is where I debate you. I would guess in that we are just going to have to disagree.

Mr. ENGLISH. Mr. Amstutz, what is the sugar support price?

Mr. AMSTUTZ. It is 18 cents a pound.

Mr. ENGLISH. Mr. Amstutz, what did you sell that sugar for?

Mr. AMSTUTZ. The MSP, incidentally, is I think 21½ cents a pound.

For roughly 3 cents a pound in the interior, and not at the seaboard.

Mr. ENGLISH. Now 18 cents subtracted 3 cents, if my arithmetic serves me right, that is 15 cents. That is 15 cents. So as we look at these other options that are available to us in trying to determine the manner in which cost the farmers of this Nation through the farm program and the taxpayers of this Nation the least amount of money, we have 15 cents. Anything that we can do to reduce that 15 cents that means there is less cost to the taxpayers and there is more money available to the farmers.

And we have a past history in front of us in which the last time the Government had taken this over and had, I don't suppose "patience" is the right word, but the determination of trying to do their best for the taxpayers and the farmers we ended up with a profit. The U.S. Government ended up with a profit. It didn't cost the taxpayers anything. Helped offset other costs of the farm program.

But you weren't interested in that, were you, Mr. Amstutz?

Mr. AMSTUTZ. Mr. Chairman, I have already answered that question. By no stretch of our imagination could we foresee prices in the future rising to the levels they did in that particular period of time. What we are dealing with now in Florida is the reality that the raw market today is I think something like 17½ cents domestic. Our problem right today is there is more sugar hanging over the market in Florida than the system will clear at loan price, not to mention MSP price.

And so removal of some of that sugar from the scene in Florida seemed to us desirable, if not necessary, to try to create a supply/demand balance down there. I mentioned our success in selling beet sugar out in the beet producing area. Fortunately, the market is just better out there.

Mr. ENGLISH. Mr. Amstutz, you keep—well, let me ask you. Do you believe in market cycles?

Mr. AMSTUTZ. Oh, sure I do, Mr. Chairman.

Mr. ENGLISH. Do you believe that there are ups and downs within the market?

Mr. AMSTUTZ. Yes.

Mr. ENGLISH. And as historically speaking, whether cycles move along?

Mr. AMSTUTZ. Yes; I believe also there are aberrations that go beyond the cycles.

Mr. ENGLISH. And you keep referring to the aberration. You hold to that aberration description in referring to the last time in which others who were holding your position not only were able to avoid a loss of sugar but were able to net for the U.S. Government over \$60 million profit. And that was in 1978-79, I believe.

Mr. AMSTUTZ. Yes.

Mr. ENGLISH. And another occurrence was back in 1973-74.

Mr. AMSTUTZ. But there have been enormous changes in sugar, in the sweetener situation around the world probably in part precipitated by that most recent occurrence which I do indeed call an aberration. This country's consumption of sugar on a per capita basis has dropped something like 25 percent in the last 5 years. That trend is not likely to be changed.

Mr. ENGLISH. What about the trend in the world?

Mr. AMSTUTZ. The trend in the world, I can't cite you the specific figures, but sweetener use—sugar use, correction—sugar use per capita is on the decline, and a principal reason is the increased usage of nonsugar sweeteners. It is over and above the dietary considerations. So one of the dilemmas of the global sugar market is that usage, consumption of sugar, per se, is not in a growth kind of a situation.

Mr. ENGLISH. With regard to your decision to take this action, did you discuss it with the Secretary of Agriculture?

Mr. AMSTUTZ. Yes, I did.

Mr. ENGLISH. And he was in agreement with you that this 15 cents loss should be taken?

Mr. AMSTUTZ. He was in agreement with me that we should follow the course we did, Mr. Chairman.

Mr. ENGLISH. What about the entire Board of Directors?

Mr. AMSTUTZ. I visited with some of the Board. You asked earlier if we had analyzed this situation. So I counseled at considerable length with the Assistant Secretary for Economics, for example.

Mr. ENGLISH. But you did not discuss it with all the members of the Board?

Mr. AMSTUTZ. Not at a Board of Directors' meeting. No, Mr. Chairman.

Mr. ENGLISH. Were there objections among those members—

Mr. AMSTUTZ. No.

Mr. ENGLISH [continuing]. That you talked to?

Mr. AMSTUTZ. No.

Mr. ENGLISH. How many of the members did you talk to, what percentage of the Board?

Mr. AMSTUTZ. I really don't recall, Mr. Chairman, but I discussed this not only with people individually, as I have already said, but at the Secretary's staff meeting which encompasses all of the Board members. I don't know how many were present at those meetings, those staff meetings where I discussed this. I just don't recall that figure.

Mr. ENGLISH. Mr. DioGuardi.

Mr. DIOGUARDI. Good morning.

Mr. AMSTUTZ. Good morning.

Mr. DIOGUARDI. Were there any other considerations besides the needs for space in the timing of that sale?

Mr. AMSTUTZ. The need for space was enormously important from the timing of the sale, no question about that. That was the primary consideration. Then in addition to that, sort of juxtaposed upon that, were the questions that I have really been discussing with the chairman; namely, that it was our judgment that it was best for the sugar program, best for American farmers to liquidate this sugar and not carry it.

Mr. DIOGUARDI. Did accounting or budgetary considerations of your Department have anything to do with the timing of this sale?

Mr. AMSTUTZ. No.

Mr. DIOGUARDI. What I am getting at is I think in Government I have seen too much of a tendency of trying to liquidate property into cash in order to show a better bottom line because of the lousy accounting systems we have here in Government. As you probably

know, we are on the cash basis, which is the worst accounting system——

Mr. AMSTUTZ. Yes.

Mr. DIOGUARDI [continuing]. Anyone has ever created, and I am trying my best to get us off that system right now. Because it is very difficult for us to track economic reality using these systems. There is a tendency among managers in Government to try to be heroes by liquidating things into cash to show that we are meeting our budgets, which is nonsense. What we are doing is putting this Government into an economic disaster because of everything that is off the books around here.

Mr. AMSTUTZ. I agree.

Mr. DIOGUARDI. I am just wondering whether or not you were persuaded to liquidate something into cash, even though there was an economic loss, because that cash would make your Department look a little better or would give you some kind of budgetary advantage?

Mr. AMSTUTZ. No; I wouldn't do that, Mr. Chairman. I agree with what you are saying. One reason I wouldn't do it, there is a powerful incentive for me not to do it because as President of the CCC, as part of this off-budget kind of process that you have said we work under, I have to come up here to the Hill to ask the Congress to replenish the CCC for losses the CCC takes. I sort of do that after the fact, and my own judgment is it should be not after the fact but concurrent. So that is powerful incentive for me not to engage in that kind of exercise, because I pay the price later on.

Mr. ENGLISH. Would the gentleman yield?

Mr. DIOGUARDI. Yes, sir.

Mr. ENGLISH. Mr. Amstutz, I agree that is what you do under those circumstances. You were referring earlier, though, to the high support levels and what I referred to as pontificating with regard to your personal views on the farm bill. Is it kind of fun to come up here, though, and talk to Members of Congress and kind of with an "I told you so," you know—"you guys adopted this program; the support level is too high, I disagree with it; and look what has happened"? Do you get a little of that kind of feeling every now and then, Mr. Amstutz?

Mr. AMSTUTZ. Mr. Chairman, I think the record speaks for itself in my case. My argument with you on this 15 cents was, simply stated, that from my best assessment, and others, that the option of recovering the 15 cents was just not a realistic option. That is the point I was making on that particular one.

Is it fun to come up here and ask for money for the CCC? No way.

Mr. ENGLISH. That isn't what I asked you. I asked you whenever you have to come up, is it—you have indicated your strong opposition to the support levels that sugar enjoys right now. You feel that is too high, we shouldn't have the sugar program. If I remember correctly, on other testimony that you have given before the Agriculture Committee, from your point of view virtually all the support levels are too high and that those ought to be reduced.

I suppose just thinking of it from human nature, human nature being maybe a little bit difficult to conceal a smile and saying, yes,

we told you guys so; if you had just done what we had told you to, well, we wouldn't have all these problems.

Please let me take it one step further and then I am going to ask you to comment and respond on it, and I am very serious about it, Mr. Amstutz, because it is something that I have wondered about.

You know, there is I think within Government, for all of us, a frustration. We all have our different points of view as to how we think this Government should be operated, what kind of programs we would like to see implemented, and given the kind of Government that we have, many times I don't think perhaps we get most of the programs that we feel should be implemented. I certainly don't have the wheat program in place right now that I would like to see for my constituents, and many other programs.

I wonder about those people in your position who aren't really in a legislative position or even in the position of the President, being able to give your stamp of approval to it, but you have got to run them and you have got very strong feelings about how those programs should be set up. It troubles me sometimes whenever we don't have programs that people in the Department particularly support, particularly those people that are political appointees in the Department don't support, if there isn't a tendency to say, well, you know, we will kind of let this one go on down the tubes. If it blows up, then we can go up and say we told you so.

I worry a little bit about whether or not you all down in the Department carry out with the enthusiasm and the dedication and with the effort that is needed to try to make a program that you disapprove of really work. I have considered it particularly thinking about the whole herd dairy buyout right now. We have before us there, the Department I think, at least most Members, both Democrats and Republicans, on the Agriculture Committee feels like the Department has not carried out the mandates of the law. Quite frankly, Members don't believe that the Department made a good effort to try to prevent that program from turning out in a bad manner, to avoid the very thing we have tried to avoid, and that is to have an impact upon the markets. So that is the way I raise it. As I said, I am not going to ask you to comment on it. You are free to if you like. But that troubles me a little bit.

It troubles me a little bit on this program because I have kind of gotten the feeling as you were talking here this is one that you sure don't approve of, you sure don't think those support levels ought to be that high, and you think that that is where the real error was. Whereas, you have gotten it, you have had the stock returned to CCC and you are just going to get rid of it and then if there is a big loss, well, then you can come up and tell the Congress, well, I told you so.

I thank the gentleman for yielding.

Mr. AMSTUTZ. Well, I will comment, if I may.

Mr. ENGLISH. Please go ahead.

Mr. AMSTUTZ. I understand your concerns. I can only speak for myself, Mr. Chairman, and I will speak for myself. When we are in a legislative process, there is no question I will make my views known and the views of the administration which I serve. I believe that is part of the system and it is proper.

But I do believe in the system. More strongly now, incidentally, than before I came here, which I find uniquely interesting. I know under the system it is my obligation to fulfill the law, and I do that to the best of my ability. When I said before that I think the record speaks for itself, I think it does.

Mr. ENGLISH. Let me say, Mr. Amstutz, I appreciate your statement, and I appreciate your saying it, and I believe you. I believe you. I appreciate your clarifying that.

Mr. DioGuardi.

Mr. DIOGUARDI. Just getting back to a little bit more economic analysis here, I am a certified public accountant, so I like numbers. I want to start to think a little creatively here as to what I would have done if I were in your place. Because I am of the opinion that we need creative managers in Government in order to stop the wholesale waste we have seen in every Government program. It makes me sick when I read the New York Times last week and now see NASA, which was supposed to be the model, the paragon of scientific and financial virtue, now no better than any other Federal program with what they can measure. They are now publicizing 300 audits. There is \$3.5 billion in 7 years.

It is a crime what is going on in this Government and it has got to stop. There is plenty of money around here. We don't have to cut any programs. All we have to do is find out where the damn waste is and find out exactly what is going on when people like you make decisions that may not have been in the best interests of this Government's financial management.

Now, let me think a little bit the way I would have thought about this had I been back in my accounting profession. How long did it take for that feedstock, the sugar, to be converted into the ethanol? What was the operating cycle? We sold it to a particular producer. What is the timelag between the delivery of that sugar to that producer and its conversion into the ethanol that was then apparently marketable at that point?

Mr. AMSTUTZ. I forget the actual—

Mr. DIOGUARDI. A month? Six months? A year?

Mr. AMSTUTZ. I will send that up to you. I just don't have it here. Obviously, they don't use it all in one fell swoop. I don't recall their capacity.

Mr. DIOGUARDI. What I am thinking here is what I would have done had I been in business with this situation. I would have said to myself, now here I am stuck with sugar I can't sell. I will take for granted what you said, that we couldn't get more than the 3 cents. But then I would have said to myself, now what would be the best use for this? Apparently you made a decision at that point that converting it into ethanol would be the best use even though it apparently hurt some corn farmers. But let's put that aside until the next person comes up.

I would have then thought ahead and said to myself, now what is that worth on the market converted into ethanol? What would that amount of sugar be worth after processing costs, subtracting processing costs, on the market for ethanol? In other words, what was the markup made by that person who bought it from us? Can you give me that number?

Mr. AMSTUTZ. Well, in essence, we did do that. That is why when we dispose of a commodity such as this we do it on a competitive bid basis, and the competitive process helps ensure that the more efficient processor where it is going to be processed will get it. Stated another way, the competitive bid process helps ensure best sales price for whatever we are selling.

Mr. DIOGUARDI. What I am saying is it appears as though we have created a windfall profit for a particular buyer here, based on what I have read.

Mr. AMSTUTZ. I don't think that is the case.

Mr. DIOGUARDI. I would like to know what that amount is.

Mr. AMSTUTZ. No; I don't think that is the case. We will send up all the figures we have on this.

Mr. DIOGUARDI. Mr. Chairman, do we know at this point what it is that the buyer profited, the amount of the profit by taking that sugar which was sold at 3 cents, converting it into ethanol, and selling it on the market? Was there a windfall profit to that particular buyer?

Mr. ENGLISH. I don't have any specific information with regard to that, Mr. DioGuardi.

Mr. DIOGUARDI. I think we should know that because this could be an interesting example of a situation where instead of having sold that sugar and grabbing some money immediately, if the operating cycle for conversion was not an unreasonable period of time, like a few months or 6 months, we probably should have joint ventured it. Forget about the other implications, about whether we hurt corn people, because that is another problem here. But why didn't we go to that individual and say, hey, take our sugar, convert it, and when you sell it we want 50 percent of the sale?

I mean, I am thinking now like a business manager. That is why we need more financial managers here in Government.

Why did you take the money so fast at such a big loss when we probably could have benefited in some part from the windfall that this other guy made?

Mr. AMSTUTZ. In this particular instance I don't think we could have. I have some figures here, but I just can't digest them this quickly. We will send up an analysis on it.

Mr. DIOGUARDI. I would like to know that because I want to follow through in my mind the cycle, the economic cycle here.

Mr. ENGLISH. Would the gentleman yield?

Mr. DIOGUARDI. Yes.

Mr. ENGLISH. The gentleman is making an excellent point. It is my understanding, though, that CCC is authorized to convert inventory commodities to ethanol and sell the ethanol for fuel purposes to Federal agencies. So the Federal Government could have used this fuel for those purposes. We could have converted it to ethanol and used it for our own Federal Government purposes, for our own vehicles. Under that kind of situation the law provides that the price would be determined by the CCC.

But from what I understand, it is very likely that the purchasers of this sugar got a bit of a windfall.

Mr. DIOGUARDI. What bothers me is these purchasers may have then sold it back to the U.S. Government as fuel. I want to track this whole thing through because this may be one of the classic ex-

amples of how crazy we are here in Government. I would like to know now whether or not that particular purchaser made a windfall—I will decide whether it is a windfall. Tell me what the purchaser made when they sold the amount of volume converted from that sugar into ethanol. Then I want to find out whether that particular purchaser sold that back to the U.S. Government and what they then marked it up for after we lost.

If it turns out that that is the case, this is probably a classic example of what goes on here every damn day.

Mr. AMSTUTZ. We will send an analysis up here.

Mr. DIOGUARDI. Mr. Chairman, could I get that specifically because I would like to analyze a few as a certified public accountant, one of four here in Congress, to give you the benefit of my thinking. Because I think we need more of these economic analyses to determine how we are really getting shafted here in Government.

Mr. ENGLISH. That is a good point. We will try to get that information.

Mr. DIOGUARDI. Thank you.

Mr. ENGLISH. We do have, Mr. DioGuardi, the corn growers will be represented next and they may be able to enlighten us a little bit more with regard to that possibility and make it a little bit clearer.

Mr. DIOGUARDI. We need numbers because everything else is talking theory. If we could see some numbers, then we will be able to understand it.

Mr. AMSTUTZ. We will get some numbers up to you.

Mr. ENGLISH. Mr. Lightfoot, do you have any further questions?

I believe that pretty much takes care of it, Mr. Amstutz. If you could provide that information for the subcommittee in a timely manner, we would appreciate it very much. And we appreciate your testimony before us, and we may very well provide you with additional written questions, so we would appreciate a timely response to those.

Mr. AMSTUTZ. Fine, Mr. Chairman.

Mr. ENGLISH. Thank you for coming before us, Mr. Amstutz, we appreciate it. Thank you.

[The information follows:]

While Shepherd Oil has been taking regular delivery of the sugar since January 1986, the firm has not yet been able to begin manufacturing the sugar into ethanol. The firm recently requested and was granted an extension of time to manufacture the sugar. Shepherd Oil stated in its request to CCC that it would begin processing the raw sugar into ethanol at the rate of 500 tons per day beginning May 1. Completion of the entire manufacturing process is scheduled for December 1986. While we cannot obtain or provide any information at this time regarding the firm's sales, profits or losses, or buyers of ethanol manufactured from the sugar purchased from CCC, we do understand that Shepherd Oil has not had any ethanol sales contracts with Federal agencies since the firm's ethanol plant became operational in 1984. With regard to whether Shepherd Oil may realize any windfall profits because of its purchase of the sugar at an average cost of 3.04 cents per pound, we strongly doubt that possibility. We base this conclusion on information developed by the USDA Office of Energy last November prior to offering the sugar for sale. The Office of Energy calculated that the value of sugar to a corn-based ethanol manufacturer would depend on the size of the facility, whether it is a wet or dry milling plant, and the corn price it could pay and remain in business. Calculated at corn prices ranging from \$1.50 to \$2.65 per bushel, the price a given manufacturer could afford to bid for sugar would range from 2 cents to 5 cents per pound. The Office of Energy took into account an estimated transportation cost of 1.8 cents per pound. Although

Shepherd oil has up to this point used molasses as its ethanol feedstock, we think these comparisons between corn and sugar feedstocks illustrate that the price paid for the sugar is within the range expected by CCC.

Mr. ENGLISH. Our next witness is Mr. Varel Bailey, who is chairman of the board for the National Corn Growers Association.

Mr. Lightfoot, would like the opportunity and honor of introducing a near neighbor.

Mr. LIGHTFOOT. You bet.

Mr. ENGLISH. So, Mr. Lightfoot, please proceed.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

I present Varel Bailey this morning, who is president of the National Corn Growers and a good friend of mine. He lives up the road not very far. He is also a constituent, so I guess we will have to be very careful what we do there.

We are very pleased, Varel, you made the trip out here this morning and are able to join us today.

I appreciate the opportunity to introduce a friend and constituent, Mr. Chairman.

By the way, I am going to have to leave for a few minutes. It is not because you are testifying, but I will be right back.

Mr. ENGLISH. Mr. Bailey, we would like to welcome you before us today. It is a real honor to have you testify to our subcommittee, and we will let you proceed in any manner that you would like. If you want to read your testimony, please feel free to do so. If you would like to summarize it, your complete written testimony will be made a part of the record, without objection.

Please proceed.

STATEMENT OF VAREL BAILEY, CHAIRMAN OF THE BOARD, NATIONAL CORN GROWERS ASSOCIATION

Mr. BAILEY. Thank you, Mr. Chairman, and subcommittee. First of all, I would like to say that Harold Cutler sends his regrets. He had a personal problem, and he was originally scheduled for this.

I would like to continue by first saying that I want to thank the subcommittee for holding this hearing. I think it is very appropriate. I think it is very timely. The information that you are asking for and the investigation, really, that you are conducting, I think, is very appropriate.

If it is appropriate, I would like to submit my testimony for the record and make a number of comments that I will extract from it.

First of all, I would like to make the point that this thing was obviously a fire sale. Several years ago, as a corn grower I wouldn't be here talking about sugar. But technology and times change and this is an issue that the corn industry is very concerned about.

First of all, our calculations are that this fire sale has displaced 6.7 million bushels of corn; that fire sale, in effect, disrupted 7 percent of the annual ethanol production; and that unaccounted so far is probably \$4.5 million, that will be an increased cost to the CCC due to the impact on the stocks of corn alone.

Now let me simply add to that by saying that the ethanol industry basically has corn as its primary feedstock, so what we are looking at is Government intervention in altering the primary feedstock for that industry. So we have a major disruption, 7 percent, 6.7 million bushels of corn; and now that raises a question in

our mind in looking at CCC stocks—what is going to happen to about 168,000 tons of sugar that is left? Are we going to have another fire sale? Are we going to have further disruption? What can we expect?

Now I noticed, I tried to pay attention and keep my tablet running back as you were visiting with Mr. Amstutz. My calculation is that if we wanted to—if CCC wanted to use this approach across the board, that what we are probably looking at is liquidation of the corn supply in CCC at about 42 cents a bushel and, I think, wheat at about 44 cents. The question that comes to our mind is are we on the verge of another real policy or philosophical change here? We have a marketing loan provision in the 1985 farm bill, but this is something even more radical than that.

The National Corn Growers has a goal—by the way, about 240 million bushels of corn are being ground into ethanol per year now. We have a goal of 1 billion bushels by 1990. That is a very aggressive goal, but we think that with the cooperation of what is in the 1985 farm bill and a reasonable shake in the marketplace that we can attain that goal. A little later on I will mention some alternatives I think that we might want to take a look at.

Another concern that comes to our mind when we look at this is that I think right now on the Hill in the Ways and Means Committee there is a discussion going on on a trade bill and it concerns the Caribbean Basin Initiative. One of the principles that we have in that is the use of subsidized feedstocks and how we allege other areas of the world are dumping products in here because they are using subsidized feedstocks. Here is a case where I think we have got to ask which kettle is black, if you will. Because all of a sudden, maybe we have stepped over the line. I think that as we approach another round of the GATT, as we approach other trade legislation we have to be very careful as to what we are doing here in our own market and what we are subsidizing and in what ways.

I was very interested in the top priority that Mr. Amstutz gave to the storage problem, the CCC storage problem. I am not sure exactly of my timing, but as I recall, shortly after this sugar deal was made there was a shift in what was authorized, or the areas authorized for grain storage in CCC. On the sugar side it was obvious that we were going to sell at a loss, but on the grain side they simply authorized that you can now store CCC grain outdoors. The difference is that any quality loss is a loss of the producer, rather than CCC.

Now in driving in yesterday to catch the plane—the grain market is very concerned about the grain storage problem. We in the corn industry have a few more months than the folks in the wheat areas, but, given a fair shake at the weather, we are going to have a tremendous storage problem out there. It seems a little inconsistent to me that CCC is willing to take a tremendous loss on one hand, but is basically, what appears to me, looking the other way as far as the storage problem for grain.

Now let's take a look at what some of the alternatives might be. First of all, we have a strategic ethanol reserve. It is authorized. As far as I know, there has never been a gallon put in it. As far as I am concerned, this was a beautiful place, a place to start to put stocks into the ethanol reserve and do it in a way—and I like the

joint venture thing that you mentioned. It appears to me to be a beautiful way to start using and filling the strategic ethanol reserve. With the real volatile crude oil price, the problem we are having with domestic petroleum production and everything, I think it is high time we take another hard look at how strategically vulnerable we are in energy.

There is another area that I would suggest that this committee take another look into as you investigate this. As I recall last fall when the quarterly announcement of the quotas on sugar imports were announced, the entire industry predicted that we would have sizable CCC forfeitures of sugar. I noticed that in your questioning with Mr. Amstutz that you questioned his will to carry out the intent of the legislation and so forth. It might be a situation, and I guess I am out on a limb on this one. It might be a situation where this is really a political problem and wasn't economic at all. That the political side of the thing says we are going to raise the quota above what we know we can really eat and so we may have to take a few forfeitures, but we will look at those later and we will figure out a way to get out of it.

I think the situation could have been totally avoided if the USDA had properly administered the sugar program so that the quotas would have balanced and it would have been a zero cost program to the Federal Government as legislated.

You have already made the point that the sugar could have gone back on the world market at 5 cents, and I think that is a very valid point.

I guess there is another alternative that could have been looked at, and I think you were nibbling at it, and that is do nothing for a period of time. Good golly, we are holding a third of a grain crop right now and the basic reason we are holding that is our belief in cycles and the fact that effective demand will recover eventually and level out. I think there is nothing wrong with holding that same philosophy in the sugar business.

One other point I would like to make that is off to the side of that, and it is in response to a comment that Mr. Amstutz made in your questioning about the Caribbean Basin Initiative. I have with me a letter addressed to Hon. Dan Rostenkowski pertaining to the Caribbean Basin. We allege, or feel that the CBI problem is not over. I would like to offer a copy of that letter and some supporting information from the Corn Growers on that issue and encourage you to take another look at the complexities of the CBI situation and how it pertains to the decisions that USDA is making on the sugar situation and how, I feel, if we are not careful, it will not be over soon, that we will be again looking at things of this type that CCC is very likely to fall into.

Mr. ENGLISH. Without objection, that information will be made a part of the record.

[The information follows:]

**National Corn
Growers Association**

Washington Office
1015-15th Street, N.W. Suite 201
Washington, D.C. 20005
202/371-1450

The Honorable Dan Rostenkowski
House of Representatives
Washington, D.C. 20515

April 23, 1986

Dear Congressman:

The National Corn Growers Association (NCGA), representing the Nation's 1.3 million corn farmers, respectfully requests your support for an amendment to be offered by Representative Gephardt in the full committee of the House Ways and Means omnibus trade and tariff bill. The Gephardt Amendment will effectively close a costly and destructive loophole in our trade laws. This amendment incorporates similar legislation as proposed earlier by Congressman Durbin and Congressman Leach.

Under current trade laws, ethanol produced in a non-Caribbean Basin Initiative (CBI) beneficiary country with 5% water content can be transshipped through a Caribbean Basin Country where the remaining water is removed and then shipped to the United States duty free. The mere dehydration of ethanol under the Caribbean Basin Economic Recovery Act (CFERA) has actually frustrated the establishment of a grassroots ethanol industry designed to process surplus sugar cane into ethanol in the Caribbean. In addition, these facilities pose a serious threat to the domestic ethanol industry and U.S. farmers who are forced to compete with heavily subsidized ethanol imports to the U.S. with the added benefit of CBI duty-free status.

One such dehydration facility already exists in the Caribbean and more than 200 million gallons of dehydration capacity is estimated to be in place before 1987. These facilities are relatively inexpensive to construct, rather simple to operate, offer little benefit to local economics, utilize virtually no CBI indigenous sugar cane and employ no agricultural workers.

As you know, the NCGA and most every other U.S. commodity and general farm organization support the production and use of ethanol from renewable resources. In 1985 alone, the domestic production of ethanol raised the nationwide farm-gate corn price by an estimated 9.9 cents per bushel, adding more than \$850 million to farmer's income. By providing a new market for 240 million bushels of U.S. corn, taxpayers are also directly benefited by reducing federal farm program costs in storage, loan defaults and deficiency payments by more than \$650 million. Put another way, last year the U.S. ethanol industry consumed more corn than we exported to the Soviet Union and Eastern European Community combined.

The Honorable Dan Rostenkowski
April 23, 1986
Page Two

Similar ethanol production benefits can be realized in Caribbean Basin nations should Congress decide to remove dehydration-only facilities from CBERA eligibility. The NCGA supports the development of a full fermentation ethanol industry in the Caribbean designed to use indigenous CBI sugar cane, but we are adamantly opposed to tariff circumvention schemes designed to benefit a few trading companies at the expense of the American farmer, U.S. taxpayers and the Caribbean nations themselves.

We have also attached a "Background Paper" that explains well the problems that U.S. corn farmers are suffering with respect to the CBI ethanol loopholes. Therefore, we ask your support for the Gephardt Amendment to close the ethanol tariff loophole.

Sincerely,

Dain Friend

Dain Friend
President

DF:mj

enclosure

cc: Ways & Means Committee Members
NCGA Board of Directors

BEST COPY AVAILABLE



National Corn Growers Association

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BACKGROUND PAPER

A. Caribbean Basin Initiative (CBI) and Ethanol Production

1. The domestic fuel ethanol industry and domestic agriculture understand and accept the basic policy objective of the CBI.
 - Properly applied, CBI can be used to develop a substantial ethanol production industry in the Caribbean, using excess Caribbean sugar cane and involving major capital investment and industrial development.
 - The U.S. domestic industry and domestic agriculture do not oppose this goal.
2. The current reading of the CBI by Customs -- whether a correct or incorrect interpretation of the law -- actually frustrates this objective.
 - Customs has read CBI as being applicable to 190 proof ethanol produced in a non-beneficiary country such as Brazil or Spain, and then shipped to a beneficiary country where it is merely dehydrated to 200 proof.
 - There is evidence that a number of these dehydration facilities are now being developed. Capacity is estimated to reach 100 million gallons by the end of this year, and 250 million gallons by 1987. Tropicana's plants will be used to process highly subsidized "wet" ethanol from Brazil and Spain, sent to the Caribbean for dehydration solely for the purpose of exploiting CBI. The prime beneficiaries of these plants are not the Caribbean countries where they are located but the few American companies that are establishing these dehydration facilities and the countries that are supplying the subsidized ethanol -- both of whom gain enormous economic benefit for avoidance of the duty, at the expense of the federal revenue, domestic industry, domestic agriculture, and the Caribbean countries themselves.
 - From a policy standpoint, these dehydration facilities are very poor options for the Caribbean economy. These facilities are cheap, relatively simple to operate and do little for the local economy. A generous estimate is that dehydration using non-Caribbean feedstock returns only 10 cents -- or less -- per gallon

of ethanol to the local economy. Yet, every one of these gallons imported to the U.S. duty free under the CBI costs the federal revenue 63 cents -- the amount of duty avoided because of the CBI legislation. Allied's plant producing 40 million gallons per year would cost the U.S. Treasury \$25 million per year in lost ethanol tariff revenue ($\$.63 \times 40$ million gallons) and return less than \$4 million ($\$.10 \times 40$ million gallons) in economic benefits to the host Caribbean nation.

- Worse, these plants stifle the incentive that would otherwise exist because of CBI to develop a "grassroots" Caribbean industry, using excess sugar as a feedstock, requiring major capital investment, and utilizing local resources to build, maintain and run a full-fledged ethanol plant. The Caribbean today is choked by excess sugar and the potential to produce far more sugar; this capacity could be transformed to ethanol with the development of a truly beneficial indigenous industry.
 - Such a full-fledged industry would have a major beneficial impact on the Caribbean economy -- far exceeding the benefits of dehydration facilities like Tropicana's. Using U.S. ethanol producing plants as a comparison, a grassroots Caribbean plant using local feedstocks would return the equivalent of 1.50 per gallon to the local economy -- a 15 times greater value than dehydration facilities. Should Allied become a full fermentation facility using CBI sugar cane, it would provide \$60 million in economic benefits to the host CBI nation ($\$1.50 \times 40$ million gallons).
 - But unless, and until dehydration facilities are removed from CBI eligibility, no such Caribbean industry will develop. Subsidized Brazilian and Spanish feedstock will be passed through these facilities and be imported duty free, and will make grassroots production in the Caribbean uneconomical. Thus, dehydration facilities not only involve an extremely unfavorable cost-benefit trade-off themselves, but also cause outright harm to the potential in the Caribbean for an enduring and highly beneficial industrial development.
3. The domestic fuel ethanol industry and domestic agriculture strongly oppose the present interpretation of CBI and endorse the proposed amendment requiring that, to be eligible for CBI treatment, ethanol be wholly the product of the Caribbean nation -- fermented and distilled in the Caribbean from Caribbean feedstock.
- The present interpretation of CBI -- allowing heavily subsidized ethanol from Brazil or Spain or elsewhere to pass through a Caribbean dehydration facility and enter the U.S. duty free -- will not only kill any hope for a true Caribbean ethanol producing capacity, it will severely injure the U.S. industry and domestic agriculture. Without the 60 cents per gallon duty, this subsidized Brazilian and Spanish ethanol will obtain the benefit of the corresponding federal excise tax exemption. In effect, this

foreign ethanol would obtain an additional subsidy -- this time from the federal government. Domestic ethanol cannot compete with Brazilian ethanol in this circumstance.

- In this sense, the interests of the domestic ethanol industry and domestic agriculture are in harmony with the goal of CBI and the best interests of the Caribbean. Both are hurt by the present interpretation of CBI. Both would be well served by passage to the Durbin, Leach, and Michel bills, or the Gephardt Amendment.

B. Grassroots Ethanol Production in the Caribbean Basin

The following is a brief outline of benefits to the U.S. and CBI nations if ethanol dehydration facilities are successfully closed in the near term:

1. Sugar Utilization: 9.5 million tons of surplus sugar cane are currently available in the CBI region for ethanol production of 160 mgy which could be easily annexed to existing sugar mills, thus greatly reducing construction costs and start-up times. Removal of sugar surplus of this magnitude would help support sugar prices in the CBI region and reduce the need for U.S. price supports and quotas. CBI dehydration-only facilities utilize little or no CBI sugar or other Caribbean feedstocks.
2. Job Creation: It is estimated that 2,500 construction jobs would be created during the two-year period required to build 150 million gallons of ethanol production capacity. Over 1,000 permanent jobs (e.g. plant operations, etc.) would also be created. The incomes of nearly 1 million persons in the agricultural sector would be improved, with the "ripple effect" in CBI economies benefiting an additional 6 million people. This is in contrast to 300 or so construction jobs, 200 permanent jobs, and zero agricultural jobs created by drying-only facilities of equal capacity.
3. Positive Impacts on GNP and Balance of Payments Problems Faced by CBI Nations: Grassroots production of ethanol in CBI nations would greatly improve their gross national products, increase government revenue through an improved income tax base, property taxation, and sales tax revenues. With increased government revenues created by the "ripple effect" of grassroots fuel ethanol production, CBI nations would be better able to repay outstanding loans.
4. Political Dividends to the U.S.: Domestic agricultural and fuel ethanol industries support grassroots production of ethanol in the CBI region. 160 million gallons of dried ethanol vs. the same amount of grassroots ethanol will have the same effect on the U.S. Treasury, from the standpoint of the tariff. However, the costs of grassroots ethanol produced in the CBI region would be more competitive with U.S. produced ethanol, and therefore could more fairly compete with U.S. grain-derived fuel ethanol. Economies strengthened in part by fuel ethanol production would reduce potential illegal immigration to the U.S. by increasing opportunities at home. This, ultimately, helps to reduce the influence of potentially destabilizing political forces in CBI nations.

Mr. BAILEY. With that I would conclude my remarks and simply say, again, I appreciate your having this hearing and would respond to any questions you might have.

[The prepared statement of Mr. Bailey follows:]



**National Corn
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STATEMENT OF
VAREL BAILEY
CHAIRMAN OF THE BOARD
NATIONAL CORN GROWERS ASSOCIATION
BEFORE
HOUSE OF REPRESENTATIVES
GOVERNMENT OPERATIONS COMMITTEE
SUBCOMMITTEE ON
GOVERNMENT INFORMATION, JUSTICE AND AGRICULTURE
ON
APRIL 30, 1986

GOOD MORNING. I AM VAREL BAILEY, CHAIRMAN OF THE BOARD OF THE NATIONAL CORN GROWERS ASSOCIATION (NCGA), AND A CORN FARMER FROM ANITA, IOWA. THE MEMBERS OF OUR ORGANIZATION APPRECIATE HAVING THE OPPORTUNITY TO TESTIFY BEFORE THE HOUSE GOVERNMENT OPERATIONS SUBCOMMITTEE ON GOVERNMENT INFORMATION, JUSTICE AND AGRICULTURE.

THE NATIONAL CORN GROWERS ASSOCIATION (NCGA) IS A NONPROFIT, NON-PARTISAN ORGANIZATION WHICH REPRESENTS THE NATION'S 1.3 MILLION CORN FARMERS. THE PURPOSE OF THE NCGA IS TO ENHANCE AND EXPAND THE USE, MARKETING, AND EFFICIENT PRODUCTION OF AMERICAN CORN.

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SINCE THE LATE 1970'S, A SUBSTANTIAL FUEL ETHANOL INDUSTRY HAS DEVELOPED IN THE UNITED STATES WHICH USES CORN AS ITS PRIMARY FEEDSTOCK. THE NCGA AND ITS MEMBERS ARE THEREFORE VITALLY INTERESTED IN THE CONTINUED GROWTH AND VIABILITY OF THE DOMESTIC ETHANOL INDUSTRY. AS RECENTLY AS 1980, ONLY 15 MILLION BUSHELS OF CORN WERE USED IN THE PRODUCTION OF ETHANOL. IN CONTRAST, IN 1985 ALONE, THE DOMESTIC PRODUCTION OF ETHANOL PROVIDED A NEW MARKET FOR 240 MILLION BUSHELS OF U.S. CORN. PUT ANOTHER WAY, IN ANY AVERAGE PERIOD OF TIME, THE U.S. ETHANOL INDUSTRY CONSUMES APPROXIMATELY 2/3 OF THE TOTAL VOLUME OF CORN THE U.S. EXPORTS TO THE USSR.

TO PUT THE NCGA'S AND MOST EVERY OTHER U.S. COMMODITY AND GENERAL FARM ORGANIZATION SUPPORT FOR THE PRODUCTION AND USE OF ETHANOL FROM RENEWABLE RESOURCES INTO PERSPECTIVE, 1985 DOMESTIC ETHANOL PRODUCTION RAISED THE NATIONWIDE FARM-GATE CORN PRICE BY AN ESTIMATED 9.9 CENTS PER BUSHEL, ADDING MORE THAN \$850 MILLION TO FARMER'S INCOME. IN ADDITION, THE FEDERAL GOVERNMENT AND TAXPAYERS ARE ALSO DIRECTLY BENEFITED BY REDUCING FEDERAL FARM PROGRAM COSTS IN STORAGE, LOAN DEFAULTS AND DEFICIENCY PAYMENTS BY MORE THAN \$650 MILLION.

THE PURPOSE OF TODAY'S HEARING IS NOT TO REVIEW THE ATTRIBUTES OR IMPORTANCE OF THE DOMESTIC ETHANOL INDUSTRY TO FARM GROUPS, AND SPECIFICALLY THE CORN GROWERS, BUT RATHER THE RECENT SALE OF GOVERNMENT-OWNED COMMODITY CREDIT CORPORATION (CCC) SUGAR

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STOCKS AT "FIRE SALE" PRICES AND ITS SUBSEQUENT IMPACT AND THE POTENTIALLY HARMFUL PRECEDENCE THIS ACTION ESTABLISHES.

THE DETAILS SURROUNDING THE SUGAR SALE AND RESULTING \$36 MILLION LOSS TO THE COMMODITY CREDIT CORPORATION (CCC) HAVE BEEN WELL ESTABLISHED AND DOCUMENTED. THEREFORE, I WILL NOT TAKE THE SUB-COMMITTEE'S TIME TO REVIEW THEM. WHAT I DO WISH TO POINT OUT, HOWEVER, ARE THE ECONOMIC AND POLICY IMPLICATIONS OF THE CCC'S SALE OF FORFEITED RAW CANE SUGAR FOR CONVERSION INTO ETHANOL FOR FUEL OR INDUSTRIAL USE.

FIRST OF ALL, FROM THE ECONOMIC PERSPECTIVE, IT IS A RULE OF THUMB THAT 14.5 POUNDS OF RAW CANE SUGAR ARE NEEDED TO PRODUCE 1 GALLON OF ETHANOL. THEREFORE, GIVEN THE 122,000 TON SUGAR SALE BY CCC AND CONSIDERING CONVENTIONAL PROCESSING TECHNOLOGIES, SOME 16,827,000 GALLONS OF ETHANOL WERE ABLE TO BE PRODUCED FROM THIS SALE ALONE.

SECONDLY, THE SUGAR WAS SOLD TO THE SUCCESSFUL BIDDER FOR SLIGHTLY MORE THAN 3 CENTS PER POUND, ALMOST 15 CENTS PER POUND UNDER THE ORIGINAL USDA LOAN RATE OF 17.72 CENTS PER POUND. WITHOUT QUESTION, THE CCC SUGAR BECAME, WITH FEDERAL ASSISTANCE, A SUBSIDIZED FEEDSTOCK SOLELY FOR THE PRODUCTION OF ETHANOL AND BENEFITING ONLY ONE ETHANOL PRODUCER.

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MOST IMPORTANTLY, THE SALE AND PROCESSING OF THIS CCC SUGAR THEORETICALLY DISPLACED MORE THAN 6.7 MILLION BUSHELS OF CORN -- WHICH COULD HAVE BEEN USED TO PRODUCE A CORRESPONDING QUANTITY OF ETHANOL. AS A RESULT OF THIS DISPLACEMENT, IT IS QUITE LIKELY THE FEDERAL GOVERNMENT RECEIVED THIS SAME CORN IN THE FORM OF FORFEITED STOCKS -- COSTING THE U.S. TREASURY AN ESTIMATED \$4.5 MILLION IN STORAGE, TRANSPORTATION, ATTENDANT CARRYING AND INTEREST CHARGES IN THE FIRST YEAR ALONE AS WELL AS A CONSEQUENT FURTHER REDUCTION IN CORN PRICES.

FROM A POLICY PERSPECTIVE, TWO VERY IMPORTANT ISSUES MUST BE ADDRESSED:

- (1) WHAT, IF ANY, ARE THE INTENTIONS OF THE CCC REGARDING THE REMAINING 168,000 TONS OF RAW CANE SUGAR CURRENTLY IN STORAGE IN FLORIDA?
- (2) SHOULD THE SUBSIDIZED SALE OF 122,000 TONS OF SUGAR BE ACCEPTABLE, WHAT PRECLUDES THE FEDERAL GOVERNMENT FROM MAKING THE 272 MILLION BUSHELS OF CORN CCC HAD IN ITS INVENTORY AT THE END OF THE 1985 FISCAL YEAR AVAILABLE TO DOMESTIC ETHANOL PRODUCERS UTILIZING CORN AS THEIR PRIMARY FEEDSTOCK AT SIMILAR ATTRACTIVE PRICES?

THE USE OF HIGHLY SUBSIDIZED FEEDSTOCKS OF DOMESTIC ORIGIN TO PRODUCE ETHANOL IS NO LESS OBJECTIONABLE TO THE NATIONAL CORN GROWERS ASSOCIATION THAN THE UNFAIRLY TRADED, IMPORTED FUEL ETHANOL WHICH IS CURRENTLY FLOODING THE UNITED STATES UNDER PROTECTION OF THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT (CBERA) FROM SUCH DIVERSE ORIGINS AS BRAZIL AND SPAIN.



FOR THE CONGRESSIONALLY-MANDATED DOMESTIC ETHANOL INDUSTRY TO GROW AND PROSPER, IT CAN NOT BE SUBJECT TO INCONSISTENCIES IN POLICY. THE COMMODITY CREDIT CORPORATION SALE OF RAW CANE SUGAR BENEFITED A SELECT FEW -- BUT THE LIST OF THOSE IT ADVERSELY IMPACTED IS MUCH LONGER, MOST NOTABLY THE FEDERAL TREASURY, AN IMPORTANT DOMESTIC ENERGY INDUSTRY AND THE NATION'S ALREADY FINANCIALLY-PRESSED 1.3 MILLION CORN GROWERS.

THE NCGA APPRECIATES HAVING THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY, AND I WILL ATTEMPT TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE ABOUT OUR TESTIMONY.

Mr. ENGLISH. Mr. Bailey, I think you are probably correct. Today with the testimony of Mr. Amstutz and certainly with the action last December, the administration's program of market clearing prices takes on a whole new aspect; something far in excess than any of us, even the most pessimistic of us, I think had ever dreamed. I think that is an excellent point and it is one that probably should be underscored as to how far they are willing to go under these circumstances.

The other part of it that is very critical and I think key to this subcommittee is how much they are willing to spend. This administration I think has the reputation, certainly this President does, of being very tightfisted, and who wants to save the tax dollar. That is the impression that I think the constituents in my district have. But whenever you examine these programs, and particularly a program such as this with the careless disregard for the cost to the taxpayer, one has to wonder, you know, as to whether that is all in the press releases. Perhaps we should adopt the advice of the Nixon administration when they say: Watch what we do, not what we say. I think there is a terrible inconsistency here between a tightfisted image and what we see as far as the manner in which farm programs are administered. The question is whether it fits the philosophy, not whether it costs a lot of money. So I think you have made a good point there and one that needs to be underscored.

Another one that may prove, and I probably should have asked Mr. Amstutz about this—we don't know yet the true impact, but it may prove to be very ironic, of course, the amount of damage that may be done in the Soviet Union in the food producing area [as a result of the Chernobyl nuclear disaster]. They have, as I understand it, quite an extensive production of sugar beets over there, and of course, grains as well, and those crops may be severely damaged. Those areas may be damaged for years to come as far as production of food is concerned. We simply don't know yet. But if that should turn out to be the case, then there will be a dramatic change, I think, in market prices. And, of course, we are already seeing that reflected on the futures market as late as yesterday. So I think that that again is probably going to make, should that be the case, Mr. Amstutz' decision look very poor indeed, very foolish indeed, and will cost this Government.

But I think your testimony is well founded and I appreciate it. I really don't have any questions that come to mind. If you have any comments you would like to make, Mr. Bailey, please do.

Mr. BAILEY. I would like to make a comment to add on to what you have said. And the point being, that the basic premise of the 1985 farm bill is to test the effective demand of the world market. I mean, in simple terms, if implemented the way intended during the discussion, debate and approval, I think that is a reasonable statement. And so the success, economic success of U.S. agriculture in the future depends on our access to those world markets, and it depends on the next round of GATT, and it depends on the trade legislation that we are working on, and so forth. I guess the thing that boggles my mind is that that whole philosophy I just mentioned was the one of the administration as they came to the Hill and everything. I guess I can't figure out why in this instance they

went the subsidized route, if you will, which is pretty much counter to the philosophy of free trade and unsubsidized, unfettered economic growth and development. I am just confused, and that is one of the reasons why I encourage the committee to continue to pursue the information you are after.

Mr. ENGLISH. I think that is a good point. If I could offer a little editorial comment, and I do want to underscore it is an editorial comment from my own point of view. I think that we may have only seen a part of that philosophy unveiled in the 1985 farm bill. If one examines closely the testimony and the statements that have been made in the past, the real philosophy is one of simply doing away with the farm program. And the way that one does away with the farm program is one simply makes it so expensive, that the losses are so disgusting that the urban consumers, those people living in urban areas, nonfarmers—and, of course, we are a very small percentage—will simply throw up their hands and say, well, you know, we can't afford to have family farmers any longer and this shows it. You know, it is just something that is too big a burden to carry. And certainly, you know, these discussions—well, such items as PIK would underscore that I believe.

I find it ironic to be talking about, well, gosh, look at what all we have done for the farmers and then throwing out we spent this huge amount of money. You and I know that if one is willing to use a strong supply management program one can substantially reduce the cost to the program. Even if you implemented this program in the manner in which it was intended, I would dare say that you would not be looking at a \$36 million loss for sugar. So it is a question of the way you administer it, not necessarily the way that you write it. So I think that there may be that willingness to attempt to destroy the entire farm program simply by running the cost up so high that the American people won't accept it any longer.

As I said, that is the editorial comment.

Mr. DioGuardi.

Mr. DioGUARDI. Thanks for your testimony, Mr. Bailey.

Would you characterize this particular sale as a fire sale?

Mr. BAILEY. Yes.

Mr. DioGUARDI. In other words, 3 cents was so low that you feel that is an unconscionable price to have gotten for that amount of sugar?

Mr. BAILEY. Yes. I mean, even the midwestern farmer is talking about \$2 corn, which they think is very low as compared to their production costs and everything. We are talking about an equivalent conversion here, when you are talking about converting to alcohol, at 42 cents a bushel. So there is no other way that I can characterize it but as a fire sale.

Mr. DioGUARDI. Do you think that the buyer here did make a lot of money on converting this to ethanol?

Mr. BAILEY. I think he should have. You know, I am not an ethanol producer, but my guess is, knowing the costs of the inputs and about what alcohol is worth coming out and the various things, that if he did not make a profit it is entirely his fault.

Mr. DioGUARDI. So if you, looking at this as a business manager, were to decide on a sale, you would probably conclude that the

downside was far less than the upside if we had held on to this and selling it later on? We could have certainly held it and got more for it later, forgetting about hindsight because we now know that it did go up, the chances of it going down below 3 cents were far less than it going back up to 5 in terms of the market? In terms of the ability to sell it later?

Mr. BAILEY. Let me word this fairly carefully. But if I were the individual in Government that not only held the decision of if and how to liquidate these stocks and also had somewhat of the control on the quota system or the entire program, if you will, which is the supply and demand of sugar, I would guess that probably the downside risk was zero. You could over time, it would take a little time, but it would appear to me that you could make the program more profitable by holding it a period of time than you could by the fire sale. And that is just strictly on a business sense and watching what I know of the mechanism of USDA and how it runs the sugar program.

Mr. DIOGUARDI. So why do you think, in your judgment, they made the sale at that time? Do you have any ideas?

Mr. BAILEY. None other than what Mr. Amstutz said of storage—as a way to quickly get rid of the problem. I have no other hunch to go on.

Mr. DIOGUARDI. You have no further suspicions as to what may have motivated this particular sale? You think it was just a poor business judgment on his part?

Mr. BAILEY. Looks like a decision made in haste, and that is just a hunch again from a taxpayer looking in.

Mr. DIOGUARDI. OK. Thank you very much.

Mr. TOWNS [presiding]. Thank you, Mr. DioGuardi.

Mr. Bailey, do you have any idea as to how many farmers you are losing per year? Corn farmers, how many are dropping out per year? You have 1.3 million now, is that correct?

Mr. BAILEY. The only hard numbers that I can cite to you come from—I belong to a recordkeeping organization where a group of about 500 farmers in southwest Iowa participate. In the last 3 years we have lost 8 percent a year.

Mr. TOWNS. And you don't think that is going to turn around?

Mr. BAILEY. Not until the economics turn around. I mean, it is just plain bottomline profit that is not there. Some of the people will allege that in this recordkeeping group—it is a nonprofit corporation that we hire to do this analytical work for us—that maybe our numbers are a little bit high simply because we identify for the individual farmers when they are rapidly losing equity, and many of those people are liquidating while they still have equity. So it is possible that our numbers are a little bit higher simply because we have better records and these guys are salvaging out while they still have equity left.

But again looking around the country, it doesn't appear that our numbers are too much different than the rest of the United States.

Mr. TOWNS. Do you have any suggestions or recommendations that you would like to make to this committee beyond what has already been said?

Mr. BAILEY. Well, on the specific reason for this hearing, I would encourage you to go further and to develop all the numbers and to,

if you would, make a case study of this situation, and encourage you, to the limit of your authority, to look into the Caribbean Basin Initiative. And again, to the limit of your authority.

I think that the long-term health of agriculture really hinges on our access to the world markets and it hinges to a great degree on our ability to re-create the environment that took place about the time that Public Law 480, Food for Peace, took place. It appears to me that that was an environment in Washington where we truly took the tools that were available and created effective demand for agricultural products around the world. And I don't think that environment has existed since. Since that time we have simply loaned money to potential agricultural food and fiber buyers around the world and they have simply run up debts. So I think we need to take a good hard look at the way we create markets for agricultural products around the world, and I think we can do it, and I don't think it has to cost a lot of money, either.

Mr. TOWNS. Mr. Bailey, let me thank you for coming and testifying before this committee. You were very informative, and we thank you very, very much.

Mr. BAILEY. Thank you.

Mr. TOWNS. The subcommittee is adjourned.

[Whereupon, at 11:30 a.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

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